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Promotion and protection of all human rights, civil, political, economic, social and cultural rights, including the right to development

Report of the Independent Expert on the effects of foreign debt and other related international financial obligations of States on the full enjoyment of all human rights, particularly economic, social and cultural rights, Juan Pablo Bohoslavsky

Addendum

Mission to Iceland (8–15 December 2014)* **

Summary

The present report presents the main findings of the Independent Expert on his visit to Iceland from 8 to 15 December 2014. The Independent Expert assesses the extent to which Iceland has fulfilled its obligations to protect economic, social and cultural rights in the aftermath of its recent banking crisis.

While Iceland managed the crisis better than many other countries and responded overwhelmingly in compliance with its international obligations, the Independent Expert identifies certain gaps that should be addressed. He recommends that the legal and institutional framework of Iceland be further strengthened in order to prevent the recurrence of a similar crisis and that attention be paid to certain vulnerable groups, in particular highly indebted individuals; people living in rented accommodation; immigrants; and children living in single-parent households.

* Late submission.

** The summary is being circulated in all official languages. The report, which is annexed to the summary, is being circulated in the language of submission only.

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The Independent Expert identifies several good practices in the Icelandic crisis that States facing a financial crisis can adopt to prevent negative human rights impacts in the context of economic adjustment programmes. He concludes that international organizations and other countries can learn from the particular path that Iceland chose, which included protecting its core social welfare system, making efforts to ensure citizen participation in the decision-making process and endeavouring to establish political, administrative and judicial accountability.

Annex

[English only]

Report of the Independent Expert on the effects of foreign debt and other related international financial obligations of States on the full enjoyment of all human rights, particularly economic, social and cultural rights, Juan Pablo Bohoslavsky, on his mission to Iceland (8–15 December 2014)

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I. Introduction

1. The Independent Expert conducted an official visit to Iceland from 8 to 15 December 2014. The purpose of the visit was twofold: to assess the extent to which Iceland has fulfilled its obligations to protect economic, social and cultural rights in the aftermath of its financial banking crisis; and to identify good practices that other Governments could adopt to prevent negative human rights impacts in the context of financial crises and economic adjustment programmes — one of the thematic priorities of the Independent Expert (see A/69/273).

2. During his visit to Iceland, the Independent Expert benefited from discussions with officials from the Ministries of Finance and Economic Affairs, Welfare, the Interior, Education and Foreign Affairs. He met with representatives of the Directorates of Labour and Health, the Central Bank of Iceland, the Financial Supervisory Authority and the Office of the Special Prosecutor, as well as with the President of the Supreme Court and Members of Parliament. He also met with members of the Parliamentary Review Committee, which had been entrusted with following up the report of the Special Investigation Commission set up by the Parliament to study the causes of the banking crisis, the Parliamentary Ombudsman, the Debtors' Ombudsman, the Ombudsman for Children, and representatives of the Icelandic Association of Local Authorities, the Housing Financing Fund and Welfare Watch. He also met with the President of the Icelandic Confederation of Labour, the Director of the Confederation of Icelandic Employers, current and former representatives of the banking industry and their lawyers, and members of the International Monetary Fund delegation that was also visiting Iceland that week. The Independent Expert visited the neighbourhood of Breiðholt, which enabled him to better understand certain challenges that Icelandic society face and see at first hand the important work that citizens and local authorities carried out at the community level. The Independent Expert also met with a wide range of civil society organizations and academics.

3. The Independent Expert would like to thank the Government of Iceland for its invitation, its full cooperation and the open and constructive dialogue. He expresses his gratitude to all those who took the time to meet with him and share their thoughts and information. He is grateful to the Icelandic Human Rights Centre, the Institute for Human Rights at the University of Iceland, the United Nations Children's Fund (UNICEF) and the United Nations Association of Iceland for the support provided during the visit.

II. Framework for analysis: financial crises and human rights

4. Policy responses to financial crises raise important concerns regarding the protection of economic, social and cultural rights because such responses are often incompatible with States' obligation to ensure the progressive realization of those rights and to avoid deliberate retrogressive measures, in particular those that are incompatible with the core obligations relating to each right, and States' duty to use all available resources to satisfy, as a matter of priority, those minimum obligations.[1] The Committee on Economic Social and Cultural Rights asserts that in times of economic crisis, "endeavours to protect the most basic economic, social and cultural rights become more, rather than less, urgent"[2] and it has already emphasized that even in times of severe resource constraints, States must protect

[1] See E/2013/82, paras. 8–21; also A/HRC/17/34, paras. 11–24.

[2] See the Committee's general comment No. 2 (1990) on international technical assistance measures, para. 9.

the most disadvantaged and marginalized members or groups of society, which would require some prioritization of the most vulnerable.[3]

5. The Independent Expert believes that, even during a harsh crisis, the Government, employers, trade unions and civil society can make a difference. When cutting public expenditure, States have to make policy choices: they can try to minimize the negative impact of a financial crisis on the enjoyment of social rights, in consonance with their international human rights obligations, or they can do more harm than necessary to their people by distributing financial losses in an unjust, unequal or discriminatory manner, thereby hitting the most vulnerable in society. Social partners can also contribute, through responsible behaviour, to helping a State overcome a financial crisis, and the participation of civil society may be key to ensuring that the voices and rights of citizens and marginalized groups are not ignored.

A. Iceland's international human rights obligations

6. Iceland has signed eight core international human rights treaties, but has yet to ratify two of them.[4] While Iceland has accepted that individuals may submit complaints under the International Covenant on Civil and Political Rights, the Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment, the Convention on the Elimination of All Forms of Discrimination against Women and the International Convention on the Elimination of All Forms of Racial Discrimination, it has not yet accepted that children and adults may bring complaints under the Convention on the Rights of the Child or the International Covenant on Economic, Social and Cultural Rights.[5] At the regional level, Iceland has ratified the European Social Charter, but has not yet signed or ratified the Additional Protocol to the Charter providing for a system of collective complaints.[6]

7. Under the International Covenant on Economic, Social and Cultural Rights, to which it has been a party since 1979, Iceland is obliged to respect and protect, and achieve progressively the full realization of, social and economic rights, including the right to work, social security, health and education, using the maximum available resources. While the Committee on Economic, Social and Cultural Rights has acknowledged that a financial crisis may require economic adjustments, it reminded the Government in November 2012 that such adjustments should: (a) be of a temporary nature; (b) be necessary and proportionate; (c) not be discriminatory and comprise all possible measures, including tax measures, to support social transfers to mitigate inequalities and to ensure that the rights of

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[3] See E/C.12/2007/1, para. 4. For a detailed review of State obligations, see E/2013/82; also Council of Europe Commissioner for Human Rights, "Safeguarding human rights in times of economic crisis", Issue paper (November 2013); Rachael Lorna Johnstone and Aðalheiður Armundadóttir, "Human rights in crisis: securing the International Covenant on Economic, Social and Cultural Rights (ICESCR) in economic downturns", *International Journal of Human Rights and Constitutional Studies*, vol. 1, No. 1 (March 2013); also by same authors, *Mannréttindi í þrengingum: Efnahagsleg og félagsleg réttindi í kreppunni* (Icelandic Human Rights Centre, 2011), available from http://rafhladan.is/bitstream/handle/10802/6818/Mannrettindi-i-threngingum-Bok.pdf?sequence=1.

[4] The Convention on the Rights of Persons with Disabilities and the Convention for the Protection of All Persons from Enforced Disappearance. Iceland has ratified the fundamental conventions of the International Labour Organization.

[5] For Iceland's status of ratification of core human rights treaties, see http://tbinternet.ohchr.org/_layouts/TreatyBodyExternal/Treaty.aspx?CountryID=78&Lang=EN.

[6] For Iceland's interaction with the European human rights system, see http://www.coe.int/en/web/portal/iceland.

the disadvantaged and marginalized individuals and groups are not disproportionally affected; and (d) identify a social protection floor and the minimum core content of rights, and ensure the protection of those rights at all times.[7]

8. The Committee further recommended that Iceland intensify its efforts to address the high unemployment rate; expand the coverage of unemployment insurance to all unemployed persons; and take measures to ensure that the social benefits system provided a minimum essential level of benefits to ensure a decent living for all beneficiaries, including single-parent families. The Committee also recommended that the levels of social benefits be monitored regularly and adjusted according to the cost of living, and that efforts to combat poverty and social exclusion, in particular of families with children, single-parent families and persons with disabilities be strengthened. In addition, the Committee recommended that Iceland take steps to address the negative impact of the financial crisis on the health sector, including through increasing its public health-care budget, and ensure that required health-care services were fully accessible for all, including immigrants and children with disabilities. The Committee also recommended that Iceland increase the budget for the public education system at all education levels, in particular primary and lower secondary education, remedy staff reductions, merging of class groups and cancellation of courses, and address the high dropout rate of students with an immigrant background in upper secondary education.[8]

B. Iceland's human rights protection framework

9. The Icelandic human rights system has several components. Legally, the framework is anchored by the Constitution, sections VI and VII of which recognize several key human rights. Constitutional provisions relating to economic and social rights are more limited; they include freedom of association and the right to form trade unions (art. 74), and freedom to pursue the occupation of one's choosing and the right to negotiate terms of employment and other labour-related matters (art. 75), which may be restricted by law. Article 76 states that "the law shall guarantee for everyone the necessary assistance in case of sickness, invalidity, infirmity by reason of old age, unemployment and similar circumstances. The law shall guarantee for everyone suitable general education and tuition. For children, the law shall guarantee the protection and care which is necessary for their well-being."

10. Human rights are guaranteed through a three-pronged grievance redress system consisting of the Parliamentary Ombudsman (Althing Ombudsman), the courts and the European Court of Human Rights. Each of those bodies plays a separate, but crucial role. The courts monitor the conformity of laws with the Constitution, while the Althing Ombudsman secures the rights of citizens with respect to the functioning of the administrative bodies, and the European Court oversees general compliance with the European Convention on Human Rights. District courts and the Supreme Court are empowered to resolve the constitutionality of cases; they are also vested with review capacity over decisions made by the executive branch, which includes the power to render invalid laws that conflict with constitutional provisions or infringe human rights.

11. The European Convention was incorporated into Icelandic domestic law through Act No. 62/1994 and can therefore be applied directly by the courts. Prior to that, Icelandic courts expressed general hesitation to apply the provisions of the Convention, on the

[7] E/C.12/ISL/CO/4, para. 6.
[8] Ibid.

grounds that the Convention was not part of domestic law.[9] To date, only relatively few cases relating to economic and social rights have been decided by the European Court.[10]

12. The Office of the Althing Ombudsman is empowered to deal with complaints relating to the administration of the State and local authorities, but may also investigate a particular administration-related matter or practice on its own initiative (see Act No. 85/1997). In the context of the banking crisis, complaints to the Althing Ombudsman increased significantly from about 300 complaints per annum (before 2008) to around 500 per annum (2011–2013), which limited its ability to take up investigations on its own initiative.[11] The increase in complaints may partly be attributed to a general disillusionment within Icelandic society with public institutions, in the aftermath of the banking collapse, so that more citizens may have been motivated to use existing mechanisms for redress. The complaints included cases relating to access to social security, welfare and unemployment benefits, housing, financial matters and banking, as well as delays in administrative action. Despite capacity constraints, the Ombudsman launched one ex-officio investigation relating to social housing in the city of Reykjavik.

13. In relation to the banking crisis, the Supreme Court took decisions on some important matters. In June 2010, it ruled that foreign currency-indexed loans that had been offered by Icelandic banks to many clients in order to purchase vehicles and houses were illegal and violated the laws designed to protect borrowers from exchange rate risks. On 28 October 2011, the Supreme Court upheld the Emergency Act of 6 October 2008 which authorized the Government to take over the management of collapsing financial institutions.

14. The Debtors' Ombudsman was established in 2010 in response to the dramatic increase of household debt during the financial crisis. It plays an important role in protecting the economic and social rights of over-indebted individuals and households in Iceland.

15. Disputes between citizens and State institutions relating to economic and social rights frequently come before the Unemployment Insurance and Labour Market Measures Complaints Committee, the Social Security Ruling Committee, the Social Services and Housing Complaints Committee, the Complaints Committee on Debt Mitigation and the Complaints Committee on Gender Equality. Individuals can usually file complaints with those bodies free of charge within three months after a decision affecting them is taken. The respective complaints committees are usually made up of three members appointed by the Minister of Welfare, and their respective Chair must fulfil the eligibility requirements for appointment as a judge to a district court (see, for example, Unemployment Insurance Act No. 54/2006, art. 11).

16. The effect of the banking crisis is also reflected in the number of complaints decided by those bodies. For example, in 2009, the Unemployment Insurance and Labour Market Measures Complaints Committee decided only 17 cases, while in 2014, it rendered decisions in 101 cases, including overturning six decisions of the Directorate of Labour. In 2009, the complaints committee for social housing dealt with seven cases, while in 2014, it

[9] See for example, the judgment by the Reykjavik District Court in case No. 968/1959, *Olafson* v. *The Minister of Finance*, 28 June 1960; and Supreme Court judgment 1975.601.

[10] See, for example, European Court of Human Rights, *Kjartan Ásmundsson* v. *Iceland* (Application No. 60669/00), judgement of 12 October 2004.

[11] Iceland, *Skýrsla umboðsmanns Alþingis fyrir árið* 2013 (Annual report of the Althing Ombudsman 2013) available from http://umbodsmaduralthingis.is/Assets/Skyrsla2014.pdf.

rendered 100 decisions, including overturning 39 administrative decisions in favour of the claimants.[12]

17. In addition, the Complaints Committee on Transactions with Financial Firms and the Insurance Complaints Committee under the Financial Supervisory Authority deal with disputes between consumers and banks, credit institutions and insurance companies. Private individuals pay a fee of ISK 5,000 or ISK 6,000, respectively, when submitting a complaint to those committees. The fee is reimbursed if the complaint is wholly or partly accepted.[13]

C. Iceland's international human rights commitments

18. In 2012, during its universal periodic review by the Human Rights Council, Iceland undertook several commitments to strengthen its human rights protection system, including considering the ratification of the Optional Protocols to the International Covenant on Economic, Social and Cultural Rights and to the Convention against Torture and Other Cruel, Inhuman and Degrading Treatment or Punishment and actively examining the possibility of establishing a national human rights institution compliant with the Paris Principles (see A/HRC/19/13/Add.1, paras. 4, 5, and 16).

19. In early 2013, the Ministry of the Interior drafted a National Action Plan on Human Rights, which included the establishment of a human rights institution. However, to date, the plan has not yet been submitted to the Parliament. Iceland thus remains one of the few European countries that does not have an independent human rights institution, although international and regional human rights mechanisms have recommended the establishment of such a body for a number of years.[14] The Commissioner for Human Rights of the Council of Europe recently highlighted the important role that national human rights institutions and other human rights protection bodies could play in the context of economic crises.[15] The time has come to fill that gap. Based on their current legal mandates, neither the Althing Ombudsman nor the Ombudsman for Children can fulfil the role of a national human rights institution. While the Icelandic Human Rights Centre carries out many activities similar to those of human rights institutions in other countries, it lacks the required legal status and adequate and stable funding to fully carry out such a task.

III. Iceland's response to the banking crisis: adjustment with a more human face

A. The banking collapse

20. The majority of Iceland's banks were privatized between 1991 and 2004, and a floating exchange rate was introduced. Icelandic banks expanded rapidly during the 2000s owing to a combination of uncontrolled risk taking, a strong Icelandic currency exchange rate and very favourable conditions on international financial markets, which enabled them

[12] The decisions taken by those committees are available from www.velferdarraduneyti.is/kaerunefndir/.

[13] See http://en.fme.is/supervision/consumer-affairs/.

[14] See CAT/C/ISL/CO/3, para. 6; CEDAW/C/ICE/CO/6, para. 239; CERD/C/ISL/CO/19-20, para. 13; CCPR/C/ISL/CO/5, para. 5; E/C.12/ISL/CO/4, para. 7; A/HRC/26/39/Add.1, para. 100; Council of Europe Commissioner for Human Rights, CommDH(2005)10, paras. 24–29 and 62.

[15] Council of Europe Commissioner for Human Rights, *Safeguarding human rights*, (see note 3), pp. 12, 54–55.

to provide an ample credit supply at low interest rates. The country became one of the richest countries in the world, with the fourth-highest gross domestic product (GDP) per capita worldwide. From 2003, the public Housing Financing Fund was allowed to provide loans to cover up to 90 per cent of the market value of a house, below a certain ceiling. Commercial banks entered the mortgage loan market, frequently offering better terms than the Government and aggressively expanding their consumer lending, which made Icelandic households among the most heavily indebted in the world.[16]

21. By 2008, Iceland was one of the most overbanked economies in the world, with its banks holding assets to a value 10 times that of the country's GDP.[17] Early warnings of the crisis by foreign analysts in 2006 where largely ignored.[18] Icelandic triple-A rated banks were already facing liquidity problems, but continued to grow, offering costumers abroad, mainly in the United Kingdom of Great Britain and Northern Ireland and the Netherlands, attractive interest rates on presumably secure deposits. The bubble continued to grow until the fall of Lehman Brothers Holdings Inc. when tightening conditions led the gross foreign debt burden of the Icelandic banks to rise from 43 per cent of GDP in 2002 to over 700 per cent of GDP in October 2008, which resulted in the collapse of all three major Icelandic banks — Glitnir, Kaupthing and Landsbanki.

22. On 6 October 2008, the Icelandic Parliament passed Emergency Act No. 125/2008, authorizing the Financial Supervisory Authority to take control of the three large banks. Crisis management emphasized the need for uninterrupted domestic banking operations and three new banks — Islandsbank, Arion Bank and Landsbankinn — were established to take over the domestic activities of the three collapsed banks. The State became a majority owner of Landsbankinn and a minority owner of the other two banks. The Government injected share capital into the three new banks and several smaller financial institutions and took over losses at a combined cost of roughly one third of GDP for 2008. While foreign investors bore the bulk of the cost of the Icelandic banking collapse, the amount invested by the State to recapitalize the Icelandic Central Bank and to cover the losses from the takeover of Icelandic financial institutions has been estimated at ISK 348 billion to 393 billion, an amount almost equivalent to the annual worth of taxes paid by Icelanders.[19]

23. In November 2008, following a steep depreciation of the Icelandic krona, the Government introduced capital controls to stabilize the currency and prevent excessive capital outflows. Shortly thereafter, Iceland applied to the International Monetary Fund (IMF) for emergency financial aid and was granted a US$ 2.1 billion loan under a two-year standby programme. The adjustment programme implemented jointly with IMF was rather unorthodox in the light of previous IMF adjustment programmes; it included stabilizing the currency through the introduction of capital controls; rebuilding the banking sector; and addressing the public deficit through a combination of tax increases and expenditure cuts, while keeping the country's social protection system largely untouched.

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[16] Erikur Bergmann, *Iceland and the International Financial Crisis* (Basingstoke and New York, Palgrave Macmillian, 2014); Silla Sigurgeirsdóttir and Robert H. Wade, "From control by capital to control of capital: Iceland's boom and bust, and the IMF's unorthodox rescue package", *Review of International Political Economy*, vol. 22, No. 1 (2015), pp. 103–133; Thorvadur Tjorvi Olafsson and Karen Aslaug Vinisdottir, "Household's position in the financial crisis in Iceland", Central Bank of Iceland, Working Paper, No. 59 (June 2012).

[17] Central Bank of Iceland, *Economy of Iceland* (Reykjavik, September 2014), p. 29.

[18] Iceland, Report of the Special Investigation Commission (Reykjavik, 2010).

[19] Thorolfur Matthiasson and Sigrun Davidsdóttir, "State Costs of the 2008 Icelandic Financial Collapse", *EconoMonitor* (5 December 2012), available from www.economonitor.com/blog/2012/12/state-costs-of-the-2008-icelandic-financial-collapse/.

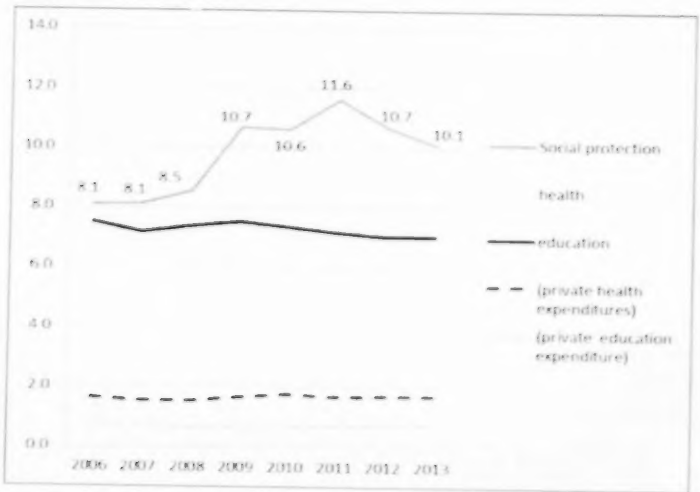
24. The rebuilding of the banking sector and the protection of core social expenditure from cuts required borrowing by the Government. While in 2007, the central government debt was 43 per cent of GDP, it reached 109 per cent of GDP in 2013. The main reasons for the increase of public debt were the shifting of private debt — mainly by banks — into public debt and the depreciation of the krona, as 33 per cent of the central government debt was denominated in foreign currency.[20]

B. Sheltering the welfare state

25. The emergency legislation approved by Parliament in October 2008 and subsequent adjustment policies were based on the principle that socialization of the losses of the banking collapse should be avoided as much as possible. Savings in deposit accounts were secured for Icelandic customers and given preference over other claims, including those by international institutional investors. The debt of many local businesses was written off to a large degree to ensure that economically viable businesses and related workplaces would survive. The devaluation of the Icelandic krona helped export-driven demand, in particular in the fishing industry, and contributed to a tourism boom. However, workers, in particular those in the construction industry, suffered a heavy blow.

26. The Government must be commended for sheltering core social expenditure against cuts. While overall government revenues fell as a consequence of the economic crisis, the State made a strategic decision to maintain the percentage of the budget for health care and education, and even increased social protection expenditure from about 8.5 per cent of GDP in 2008 to above 10 per cent of GDP during the first four years after the banking collapse (see figure 1).

Figure 1
General government expenditure on social protection, health and education (in percentage of GDP)



Source: Statistics Iceland, General government finances 2013, 23 September 2014.

[20] Central Bank of Iceland, *Economy of Iceland* (Reykjavik, September 2014), p. 70.

Table 1

Change in general government expenditure (2007–2013), total and selected subcategories (at 2013 prices, in ISK millions)

	2007	2008	2009	2010	2011	2012	2013	Change (2007-13)
Total expenditure	810.010	1.121.026	915.781	912.646	853.380	838.613	827.904	2,2%
General public services (total)	108.420	127.786	179.940	159.101	150.087	160.229	156.029	30,5%
Executive and legislative organs	7.861	7.842	6.384	6.086	6.159	6.228	6.647	-18,3%
Debt service	49.135	64.477	117.344	93.615	86.682	94.745	92.004	46,6%
Public order, safety and justice	27.264	26.753	29.366	23.491	30.626	26.171	26.619	-2,4%
Economic affairs (total)	112.417	378.653	113.762	125.011	106.683	88.729	88.836	-26,5%
Road, water and air transport	65.434	76.875	56.266	46.147	38.704	39.194	44.032	-48,6%
Housing and community amenities	9337	10013	8938	43978	6284	20243	11476	18,6%
Social protection (total)	161.812	172.914	201.684	197.055	207.295	194.964	188.973	14,4%
Unemployment	4.490	7.101	30.520	28.901	27.319	22.835	16.792	73,3%
Disability pensions	41.313	45.894	48.690	48.065	52.453	52.000	53.659	23,0%
Old age pensions	42.238	43.404	39.746	37.197	43.973	45.996	47.011	10,2%
Family and children	48.867	49.141	49.809	48.248	43.057	41.614	44.713	-9,3%
Housing	11.477	13.120	17.376	18.568	25.384	19.864	13.414	14,4%
Social exclusion	5.263	6.026	6.994	7.675	7.895	7.711	7.950	33,8%
Health care (total)	150.068	153.860	149.020	138.823	136.834	136.866	140.054	-7,2%
Pharmaceutical products	10.216	12.132	12.762	10.959	10.245	9.268	8.218	-24,3%
Hospital services	74.900	75.720	72.454	66.014	64.306	65.854	68.208	-9,8%
Nursing and convalescent home services	26.208	25.672	24.135	23.600	24.027	23.464	24.092	-8,8%
General medical services	16.324	16.744	15.521	15.324	15.431	15.384	16.178	-0,9%
Education (total)	155.492	163.192	153.735	147.635	145.244	141.976	143.537	-8,3%
Pre-primary	15.262	16.783	16.174	14.922	15.016	14.265	14.532	-5,0%
Primary	51.488	52.453	48.691	46.658	47.737	44.506	45.594	-12,9%
Secondary	46.654	48.224	45.858	42.693	43.226	43.072	43.266	-7,8%
Tertiary	33.967	37.164	35.024	35.027	31.577	32.095	31.986	-6,2%

Source: Statistics Iceland. General government total expenditure by functions, 1998–2013.

27. Public health expenditure decreased from 7.22 per cent of GDP in 2008 to 6.99 per cent of GDP in 2012, with only a limited shift of health-care costs from public coverage to the pockets of individuals. Private health-care expenditure grew by 13 per cent between 2008 and 2012, but remained moderate and, so far, has not exceeded 19.7 per cent (2010) of total health expenditure.

28. Measured as a percentage of GDP, overall public education expenditure was only moderately reduced, while private expenditure for education increased by about 12 per cent after the banking collapse.

29. As the economy contracted by about 8 per cent between 2008 and 2010, it should be noted that, in real terms, painful cuts were made to public health services and education. Compared to 2007 expenditure, funds spent in 2013 on public health care and education were 7.2 per cent and 8.3 per cent lower, respectively (see table 1). Most of the cuts in the health sector, however, were made strategically, focusing on decreasing hospital costs, postponing investments in hospital infrastructure and the acquisition of new equipment, and reducing pharmaceutical costs. Outpatient services were largely spared cuts. In the education field, primary schools were hardest hit by cuts, while pre-primary and tertiary education institutions suffered less.

30. The sharp increase in government spending in 2008, compared to 2007, reflects the cost of recapitalizing the Central Bank of Iceland and the new, downsized domestic branches of Icelandic banks (see table 1, Economic affairs). By 2013, overall government spending had returned roughly to pre-crisis levels. However, the State had to borrow to cover the costs of the banking collapse, which resulted in the significant increase in public debt service, the main reason for the growth in overall spending on general public services, as debt service is currently responsible for about 60 per cent of the expenditure under this category. In 2013, debt service accounted for 11.1 per cent of all State expenditure, which meant that, compared to the pre-crisis years, fewer funds were available to cover other public costs.

31. Spending on public order, safety and justice was reduced only slightly (by 2.4 per cent), while cuts were strongest in the area of road, water and air transportation infrastructure (by 48.6 per cent). It should be noted that the executive and legislative branches also made efforts to save costs.

32. Social protection spending peaked during the period from 2009 to 2012 when Iceland witnessed historically unprecedented rates of unemployment. Funds for rental subsidies and to combat social exclusion were also augmented. Government spending on disability pensions grew, owing to the increase in beneficiaries. Public expenditure on old age pensions also registered an upward trend after 2011. Only spending on family and child benefits was reduced as stricter income-based eligibility criteria for accessing benefits were imposed.

33. It was not only the smart and more targeted use of funds that ensured that core social and economic rights remained protected, but also the willingness of society — in particular the overwhelmingly female workforce in the health and education sectors — to work overtime, accept a salary freeze and use resources more efficiently. As the Working Group on the issue of discrimination against women in law and practice has stressed, such gender imbalances caused by the financial crisis in Iceland need to be corrected (see A/HRC/26/39/Add.1).

34. Welfare Watch, one of the new innovative bodies formed in early 2009, is an independent consultative body, comprising more than 35 representatives of key ministries, municipalities, social partners and civil society, many of whom are also working at the grass-roots level. Welfare Watch was established to monitor the social impact of the crisis, provide advice to State institutions and coordinate targeted interventions on the ground; it

managed to spread the message that, during the crisis, the weakest in society should be protected. The watchdog submitted several reports with recommendations to the Government, as well as one to the Parliament. In 2015, it is expected to put forward additional recommendations on how to address and guarantee the rights of persons suffering multiple forms of deprivation. The Independent Expert hopes that its expert advice will be duly considered by the Icelandic authorities.

C. Taxation and the distribution of losses

35. Iceland's adjustment programme strongly emphasized increasing revenue generation through taxation, while focusing to a lesser extent on public expenditure cuts. The reintroduction of a progressive income tax system helped to shelter the most vulnerable groups from the effects of the crisis. In addition, the flat tax on capital income was increased and a wealth tax was temporarily introduced to generate revenue. The only regressive tax measure was a one per cent increase in the value added tax from 24.5 to 25.5 per cent. On the whole, social benefits were directed to lower-income households, mainly by cutting maternal and parental leave entitlements. Disposable income fell across the entire society. The poorest 20 per cent of the population in Iceland lost around 9 per cent of their disposable income between 2008 and 2010. In contrast, 10 per cent of the wealthiest households that had accumulated assets during the boom years of the bubble economy lost 38 per cent of their income. Social transfers and taxation policies reduced inequality in Iceland significantly. They also helped to stabilize internal demand, as the citizens with lower incomes spent a much higher percentage of their funds on goods and services.[21]

D. Special Investigative Commission of the Parliament

36. In December 2008, the Icelandic Parliament set up a Special Investigation Commission to investigate and analyse the processes leading to the collapse of the three main commercial banks. The Commission is co-chaired by a Supreme Court judge, the Parliamentary Ombudsman and an academic expert. The Commission submitted a detailed report to Parliament in April 2012 in which it outlined the responsibilities of entities and individuals, including bankers, politicians and governmental officials in charge of supervising the financial and monetary systems. From December 2009 to September 2010, a Parliamentary Review Committee scrutinized the report.

37. On 28 September 2010, the Parliament unanimously adopted a resolution providing for the review of existing legislation, including the Constitution of the Republic of Iceland, Act No. 4/1963 on Ministerial Responsibility and legislation relating to financial markets and their operations. The Independent Expert notes that, while some of the above-mentioned legislation has already been reviewed and revised, to date, many of the laws have not yet been amended in order to prevent the recurrence of a similar crisis.

38. On 28 September 2010, Parliament also adopted a resolution to initiate legal proceedings against the former Prime Minister, Geir Haarde, before the High Court of Impeachment. Resolutions against three other ministers failed to receive a sufficient

[21] See Stefán Ólafsson, "The Icelandic way out of the crisis: Welfarism, redistribution and austerity", Social Research Centre, University of Iceland, Working Paper No. 1 (2012); and Bruno Martorano, "Is it possible to adjust 'with a human face'? Differences in fiscal consolidation strategies between Hungary and Iceland", UNICEF, Office of Research Working Paper, WP-2014-No. 03 (May 2014).

majority in Parliament and therefore they could not be examined by the High Court of Impeachment. The former Prime Minister was cleared by the High Court of most of the charges, but sentenced for failing to call emergency meetings, as provided for under the Constitution. He has appealed to the European Court of Human Rights where his case is still under consideration.

E. Reform of banking supervision

39. The Special Investigative Commission also noted the failure of the supervisory authorities to foresee the crisis. In its report, it concluded that the Financial Supervisory Authority (FME), the institution that bore the main responsibility for monitoring the activities of the banks, had not grown in proportion to the banks and its practices had not kept up with the rapid change in banking practices. Failings of FME included insufficient expertise to carry out its statutory supervisory tasks, as well as a lack of assertiveness when it discovered that regulated entities did not comply with applicable laws or regulations. In response to violations of the law, only written comments were provided to the relevant financial corporations; the issues were not examined through the proper legal channels, nor did the authorities try, in a decisive way, to prevent the collapse and to reduce the size of the balance sheets of Icelandic banks, after 2006. The Special Investigative Commission also detailed the failure of the Board of Governors of the Central Bank of Iceland and the Ministers responsible to inform each other appropriately or to act adequately on information indicating that urgent action was required. It concluded that, in addition to the former Prime Minister, the Ministers of Finance and Business Affairs, the Director General of FME and three Governors of the Central Bank had shown negligence.[22] In addition, FME staff were frequently recruited from their supervisory functions directly into more lucrative jobs in financial institutions whose operations they were previously required to supervise, thereby undermining the ability of FME to perform its functions.

40. In the aftermath of the crash, the Government implemented a range of reforms aimed at enhancing the supervisory capacities of FME.[23] FME also assisted in the investigation of 205 cases relating to alleged violations prior to the 2008 banking collapse, referring 103 cases of bankers to the Office of the Special Prosecutor, for further action.[24]

41. Iceland should implement the recently passed European banking legislation in order to further strengthen the system of banking supervision. The Financial Stability Council, composed of representatives of the Ministry of Finance, the Central Bank and FME, seeks to adequately monitor the macro-financial situation of the country in order to take timely decisions. As the Parliament played a crucial role in identifying the causes of the financial crisis, one would think that it should play a role in the Financial Stability Council, either by including a parliamentary representative on the Council or by ensuring citizens' oversight of the Council through a parliamentary committee.

[22] Iceland, Report of the Special Investigative Commission (Reykjavik, 2010), chapter 21, Causes of the Collapse of the Icelandic Banks – Responsibility, Mistakes and Negligence, available from www.rna.is/media/skjol/RNAvefurKafli21Enska.pdf.

[23] See, for example, "Future Structure of the Icelandic Financial System", report of the Minister of the Economy to the Althingi (March 2012), pp. 63–77, 101–102.

[24] Iceland, Annual Report of the Financial Supervisory Authority (FME) 2013 (Reykjavik, 2013), p. 9.

F. Office of the Special Prosecutor

42. The capacity of the judicial system to scrutinize criminal financial and economic conduct was inadequate in comparison to the size of Iceland's international banking operations. Parliament passed Act No. 135/2008 establishing the Office of the Special Prosecutor to investigate alleged criminal conduct, before and during the banking collapse, relating to the financial undertakings of the Icelandic financial institutions, including the activities of their owners. Since 2011, the Office has also been tasked with investigating economic crimes and tax evasion. The Office deals with complex cases, involving many suspects, witnesses and a huge amount of documentation relating to alleged fraud, embezzlement, market manipulation and insider trading. In 2012, it had up to 110 staff supporting its investigations; staffing and funds have been reduced since then. As of 1 December 2014, 184 cases relating to the banking collapse had been investigated by the Special Prosecutor, including 27 cases, involving 62 individuals, prosecuted by district or higher courts, six cases ruled on by the Supreme Court and 35 cases still under investigation.

43. The efforts of the Special Prosecutor to combat impunity for economic crimes and ensure justice in relation to alleged criminal conduct before and during the banking collapse is commendable and will hopefully promote law-abiding behaviour in the financial sector. However, individuals who have been under investigation, and the lawyers representing them, expressed concerns to the Independent Expert, including about telephone tapping of privileged telephone conversations between suspects and their lawyers.[25] The Independent Expert was informed by the Office of the Special Prosecutor that telephone tapping of suspects' conversations had been stopped after it had become apparent that such communication between lawyers and their clients was not excluded. Adequate resources for the work of the Office are needed to ensure a timely rule-of-law-based exercise of the Special Prosecutor's mandate, including the conduct of investigations into past, current and future criminal economic activities.

G. Participation of citizens and accountability

44. In the aftermath of the banking collapse, Icelandic citizens took to the streets and protested in front of the Parliament building. The Government resigned and parliamentary elections were held in early 2009, which brought a new coalition to power until April 2013. Many citizens had, however, lost trust in the established political and public institutions and new forms of citizens' participation emerged.

45. For the first time in Icelandic history, referenda were held on the question as to whether and to what extent the Government should pay back deposits by foreigners in Icesave, a branch of the former Landsbanki. As most of the concerned savers in the United Kingdom and the Netherlands were covered by national banking guarantees, individuals residing in those countries were protected up to their national guarantees from losing all their deposits.

46. After the banking crash, there was a huge turnover in senior management at the Financial Supervisory Authority and the Central Bank of Iceland, to a large degree through resignations. However, there appear to have been hardly any sanctions in relation to any criminal or non-criminal aspects of negligent behaviour on the part of officials.

[25] See also Johannes Sigurdsson and Dorir Juliusson, "Hriktir i studum rettarrikis?", *Timarit logfraedinga*, vol. 64, No. 2 (2014), pp. 105–168.

Administrative, civil or criminal sanctions against government officials appear to have been limited to the trial of the former Prime Minister and one government official who was accused of insider trading. While the efforts to hold bankers accountable are remarkable in the light of modern financial history, a comprehensive attempt to ensure accountability in the public sector appears to be lacking. Furthermore, there are no regulations prohibiting high-level civil servants or Members of Parliament from being immediately re-employed in certain positions in the private sector. Post-employment restrictions have been repeatedly recommended in Council of Europe evaluation reports.[26]

47. In 2012, the Council of Europe identified shortcomings in relation to the independence and impartiality of the judiciary in Iceland.[27] In the view of the Independent Expert, the system for appointing judges could be further strengthened to ensure absolute independence of the judicial branch from executive influence. A more sophisticated domestic legal framework, establishing the duty of public officials to protect the public interest and outlining the consequences of breaches of that duty would contribute to creating the right incentives for ensuring public accountability.

IV. Impact of the banking crisis on the enjoyment of human rights

A. Right to work

48. While unemployment in Iceland increased to about 10 per cent in 2009 and 2010, it never reached the unprecedented levels seen in other European countries trapped in a debt crisis. Active labour market programmes, training and the opening up of secondary schools and universities to unemployed persons prevented a much larger part of the population from ending up out of work or without training. The policies were largely successful, with the number of long-term unemployed dropping from about 2,500 persons in 2012 to around 1,000 job seekers by the end of 2014.

49. The Government provided assistance to companies to keep their staff, with reduced working hours and subsidized salaries. Social partners agreed on wage restraint to safeguard employment in the aftermath of the crisis, but decided to increase the minimum wage to protect low-income workers. Instead of shortening the duration of unemployment benefits, the Government temporarily extended unemployment benefits to a maximum duration of four years, preventing a much larger proportion of the unemployed from having to depend on social security benefits as a last resort.

50. However, challenges remain: while overall unemployment dropped to 4.1 per cent during the fourth quarter of 2014, unemployment of foreigners, in particular Polish nationals, which had reached over 20 per cent during the crisis years, still stood above 10 per cent in July 2014. The youth unemployment rate, at 8.5 per cent, was still significantly

[26] Council of Europe, Second Evaluation Round, Addendum to the Compliance Report on Iceland (Greco RC-II (2006) 10 E Addendum), 19 February 2009, paras. 14–18; and Council of Europe, Fourth Evaluation Round, Corruption prevention in respect to members of parliament, judges and prosecutors, Evaluation Report – Iceland (Greco Eval IV Rep (2012) 8E), 22 March 2013, paras. 59 and 60.

[27] Council of Europe, Fourth Evaluation Round (Greco Eval IV Rep (2012) 8E) (see note 26), paras. 74, 75, 83, 84, 94 and 160.

above average: men continued to face a slightly higher unemployment risk (4.3 per cent) than women (3.9 per cent).[28]

B. Right to social security, and combating poverty and social exclusion

51. The number of people depending on municipal financial aid — last-resort support — has nearly doubled, from 4,280 households in 2007 to over 8,000 households in 2013. About 4 per cent of the entire population and 6.5 per cent of all households depend on such income support, with single men without children and single women with children being most dependent on municipal financial assistance, and 45 per cent of recipients being unemployed.[29]

52. As of 1 of January 2014, the duration of unemployment benefits was reduced to two and a half years and it is expected that many long-term unemployed will have to rely on the minimum social security net offered by municipalities, which are not very well prepared, either administratively or financially, to support the increasing number of people seeking assistance. Municipalities apply different eligibility criteria, so that applicants enjoy different levels of benefits depending on their place of residence, and the differences cannot always be justified by disparities in local living costs. The last-resort social security benefit, aimed at covering the minimum costs for decent living, varies by more than 30 per cent, depending on the municipality. The amount for a single person is between ISK 129,240 (in Akranes) and ISK 169,199 (in Reykjavik).[30] A harmonized, equal and non-discriminatory treatment of all applicants, in conformity with article 2 of the International Covenant on Economic, Social and Cultural Rights, appears to be lacking.

53. Although the Debtors' Ombudsman has developed a reference budget for the purpose of debt mitigation, Iceland has not yet specified the core minimum budget that individuals and families should have in order to enjoy the essential economic and social rights and to be able to participate in public life, and which reflects actual living costs.

54. Welfare, labour market and taxation policies contributed to keeping the percentage of persons at risk of poverty and social exclusion, as defined by the European Union, below 14 per cent in the aftermath of the crisis. The 2013 European Union survey on income and living conditions shows, however, that particular groups are at risk.[31] For example, children (16.6 per cent); foreign citizens (19.0 per cent), unemployed persons (23.2 per cent) and tenants living in accommodation rented at market rates (30.7 per cent) or at reduced rates (33.0 per cent) are at a much higher poverty risk, while homeowners, including those paying mortgages (7.1 per cent) or who have already repaid their loans in full (9.1 per cent) face a below-average risk of poverty or social exclusion (see figure 2 below). Debt relief measures for homeowners appear to have been generally successful in preventing widespread poverty among households paying mortgages. The Independent Expert is, however, particularly concerned about the situation of people who either cannot afford to buy their own accommodation or who have lost their homes owing to the banking crisis.

55. Single-parent households continue to require particular attention as 27.1 per cent of those households live on less than 60 per cent of the median income. While child poverty in Iceland is low by international standards, the at-risk-of-poverty rates among children whose

[28] Statistics Iceland, Labour Market Statistics, 4th quarter 2014, 29 January 2015; data on the unemployment of immigrants were provided by the Directorate of Labour.

[29] Statistics Iceland, Municipal social services 2013, 9 October 2014.

[30] Hanna R. Björnsdóttir and others, EAPN Iceland, European Minimum Income Network country report Iceland (September 2014), p. 6.

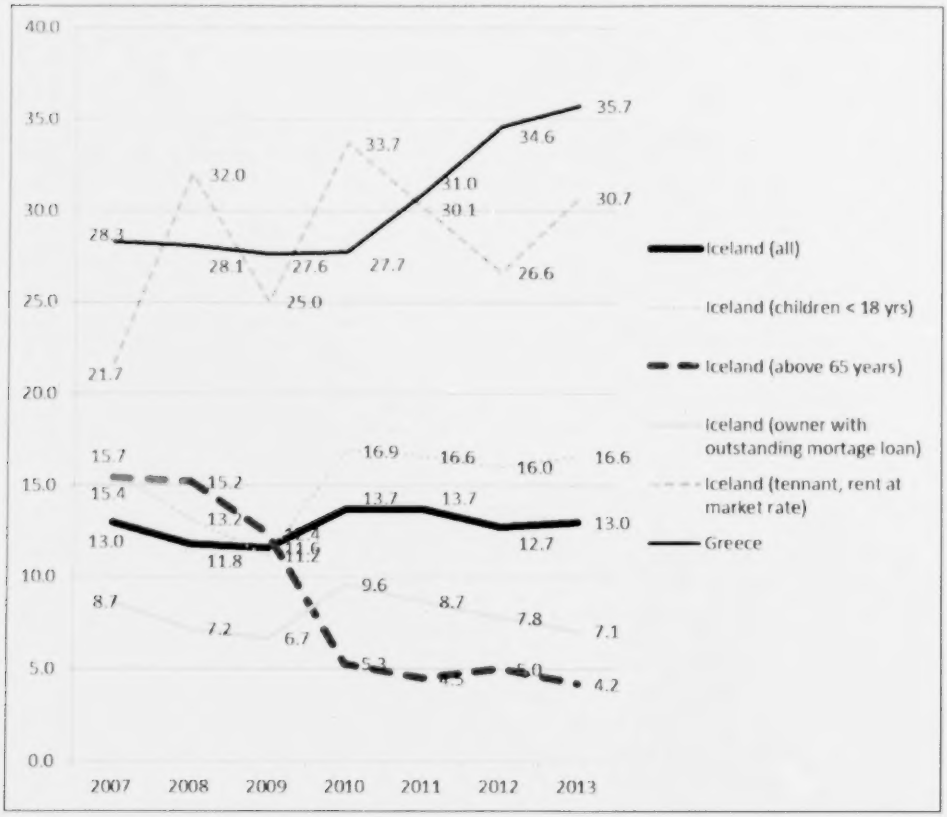
[31] European Union Statistics on Income and Living Conditions (EU-SILC), data available from http://ec.europa.eu/eurostat/web/income-and-living-conditions/data/database

parents are below 30 years of age (36.5 per cent), who live in single-parent households (30.8 per cent) or who live in rented accommodation (28.2 per cent) are worrying.[32]

56. The Government of Iceland should be commended for successfully combating poverty and social exclusion amongst the elderly. By raising the tax-funded guaranteed minimum pension above the minimum wage in September 2008, and by further increasing the guaranteed pension as a crisis policy measure in early 2009, old age poverty was substantially reduced (see figure 2 below). Gender differences relating to income poverty among the elderly were also closed. In 2008, 19.7 per cent of all women over 65 years of age lived below 60 per cent of the median income, or the poverty threshold, while in 2013, only 4.0 per cent did so; while income poverty among elderly men dropped from 9.5 per cent in 2008 to 3.9 per cent in 2013.[33]

Figure 2

People at risk of poverty or social exclusion by selected population groups in Greece and Iceland (in percentages)



Source: Statistics Iceland and EU-SILC.

[32] Statistics Iceland. Social indicators: Children and poverty. 10 November 2014.

[33] See EU-SILC, data available from http://ec.europa.eu/eurostat/web/income-and-living-conditions/data/database.

C. Right to health

57. Iceland has a high-standard universal health-care system, and hospital services are free of charge. Since 2009, all children have access to free primary health care. On the other hand, user fees for private health care increased from about 16.4 per cent in 2000 to 19.1 per cent in 2010 and adult dental care is also payable. The number of people who reported having skipped a dental visit because it was too expensive increased from 6 per cent in 2007 to 11 per cent in 2013. Access to affordable dental care is a concern, in particular to people in the lowest income quintile, 18 per cent of whom said that they had skipped a necessary service because they could not afford it.[34] The Government should be commended for gradually introducing a scheme to provide free dental health care for children. Expanding such a scheme to individuals in situations of poverty, irrespective of their age, should be considered.

58. Research conducted so far indicates that the banking collapse had only limited impact on the health of the population. Studies have identified slightly higher stress levels among women, in particular unemployed women, and students with middle levels of income or education. However, the crisis seems to have reduced smoking, heavy drinking, consumption of sugared soft drinks and fast food, and resulted in better sleeping behaviour.[35]

59. The number of people reporting that they were in good or very good health dropped only slightly from 79.0 per cent in 2007 to 76.8 per cent in 2013. Self-reported good health decreased more among the more affluent, but remained largely unchanged among those with lower incomes. In 2014, the Euro Health Consumer Index ranked Iceland seventh in Europe, with particular good scores on patient rights, prevention and health system outcomes, including the lowest number of infant deaths and the lowest number of potential years of life lost.[36] While the Icelandic health system maintained its impressive services, job satisfaction of doctors and nurses probably suffered most owing to cost-containment policies.[37] The health sector is starting to encounter difficulties in keeping highly qualified staff, who can easily find more attractive jobs abroad.

D. Right to education

60. Independent research suggests that teaching and learning — the core functions of schools — were, to a large extent, protected. The reduction in expenditure on education did not cause a school crisis as access to education of a suitable quality was not threatened. However, that may not apply to all primary schools, which were harder hit by the cutbacks than other schools. Various cuts were made at all school levels; some administrative positions were eliminated; class size was increased; teachers were not paid for overtime and principals served as substitute teachers. A number of schools at the preschool and primary

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[34] Statistics Iceland, Health services, available from www.statice.is/Statistics/Health,-social-affairs-and-justi/Health-services.

[35] See Christopher B. MacClure, "Mental health and health behaviours following an economic collapse. The case of Iceland", PhD dissertation, University of Iceland, 2014; also Tinna Laufrey Ásgeirdóttir and others, "Was the economic crisis of 2008 good for Icelanders? Impact on health behaviours", *Economics and Human Biology*, Vol. 13 (2014), pp. 1-19.

[36] Health Consumer Powerhouse, *Euro Health Consumer Index 2014 Report*, 2015, available from www.healthpowerhouse.com/files/EHCI_2014/EHCI_2014_report.pdf.

[37] I.B. Solberg and others, "Cross-national comparison of job satisfaction in doctors during economic recession", *Occupational Medicine*, vol. 64, No. 8 (December 2014), pp. 595-600.

school levels were merged, while teachers' salaries have remained low by international standards.[38]

61. Iceland has one of the highest rates of early school leaving in Europe, with boys and immigrant children being at particular risk of dropping out of upper secondary school before attaining the minimum qualifications. The Independent Expert notes that, in its White Paper on Educational Reform, the Government identified tackling secondary school dropout as one of its priorities.[39]

62. The Independent Expert recommends that financial literacy be included in the school curriculum, as a preventive measure. The report of the Special Investigative Commission could be summarized in a more accessible form and discussed in schools. Social and economic rights should be made more visible in the existing curriculum on democracy and human rights, which should include more information on the rights of citizens as clients of banks and how individuals can use existing mechanisms at the national or international level to ensure that their social rights are respected. This should include information about Icelandic institutions that defend the rights of citizens in the social and economic sphere.

E. Right to adequate housing and individual debt relief

63. Past housing policies were nearly exclusively aimed at promoting loan-based home ownership. In the aftermath of the crisis, the value of loans indexed to foreign currency skyrocketed; such loans were popular among the population prior to the banking crash, owing to the spread between the local and foreign currencies, and had been sold recklessly to consumers, in breach of national law provisions. Banks also engaged in competition to offer credit to consumers, but after the crash, thousands of citizens were caught in a debt trap when the value of the Icelandic krona depreciated drastically. Suddenly, many Icelandic homeowners had private debt outstripping the value of their homes and were unable to repay their debts to commercial banks and the Housing Financing Fund.

64. The Government reacted by introducing several debt relief schemes and by imposing moratoria on foreclosures. In August 2010, the Government established the Office of the Debtor's Ombudsman, funded by a levy on financial institutions, which could negotiate with various lenders on behalf of debtors . Initially, most requests for debt mitigation came from homeowners; however, that trend shifted in 2014. Today, more than half of all debt mitigation applicants live in rented homes.[40] There is a worrying trend of a smaller group of people who are heavily indebted and who can neither afford to pay their daily living costs, including housing, nor repay their debt. It is doubtful whether additional debt relief initiatives taken by the current Government in 2014 will adequately and definitively solve the situation of these households. According to views expressed to the Independent Expert, further targeted debt relief for heavily indebted poor households would not present risks to the restructured commercial banks or the Housing Financing Fund, which have largely written off those liabilities on their balance sheets.

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[38] Steinunn Helga Lárusdóttir and others, "The Economic Collapse and the Impact on Schools in Iceland", research project by the School of Education, University of Iceland (unpublished); also Organization for Economic Cooperation and Development, Economic survey of Iceland 2013, p. 101.

[39] European Commission, "Reducing early school leaving: key messages and policy support" (November 2013), p. 32, available from http://ec.europa.eu/education/policy/strategic-framework/doc/esl-group-report_en.pdf; and Iceland, Ministry of Education, Science and Culture, "White paper on education reform" (Reykjavik, 2014).

[40] Data provided by the Debtors' Ombudsman to the Independent Expert.

65. Iceland still needs an adequately equipped Debtors' Ombudsman to assist over-indebted households with debt mitigation, as well as to provide advice and improve financial literacy so as to prevent citizens from falling into a debt trap again.

66. Of particular concern is access for the less affluent to affordable and appropriate housing with secure legal tenure, especially given the fact that many of them have lost their own homes and have entered the rental market. In particular, young persons with children find it difficult to find affordable accommodation. There is a lack of apartments for long-term rental and there is a need to improve the legal protection of rent payers and to expand social housing programmes.

V. Lessons learned

A. Good practices

67. Several good practices can be identified. First, the Government tried to reduce the negative impact of the banking collapse on its citizens by sheltering their deposits; restructuring and dividing the failed banks into smaller entities to serve the local citizens and economy; introducing capital controls, as needed, and debt relief for companies and private households, including the establishment of a Debtors' Ombudsman.

68. The Government also responded to the financial and economic crisis by sheltering vulnerable groups through expanding social protection spending, promoting temporary part-time work, formulating active labour market policies and granting a temporary expansion of entitlement to unemployment benefits, instead of implementing front-loaded austerity measures — which would have worsened the crisis —, adjustment policies focused on increasing government revenue through the reintroduction of progressive income taxation, a wealth tax and higher corporate taxes. Although practically every citizen suffered losses, the cost of the collapse was distributed in an overwhelmingly fair manner, with stronger protection for low-income groups, while the wealthy, who are not at risk of falling below the minimum levels of enjoyment of social and economic rights, experienced a much higher drop in their disposable income. Inequality within Icelandic society decreased. While unemployment rose, it never reached the catastrophic levels experienced by other European countries affected by financial crises. The Independent Expert commends Iceland for, in particular, reducing poverty among the elderly and, more particularly, among elderly women, by increasing the government-guaranteed minimum pension.

69. Welfare Watch is worth mentioning as an innovative response to the financial crisis. The watchdog can be credited for having improved collaboration between government departments, local authorities and civil society in tackling the social impact of the crisis and for enhancing citizens' participation. Its work resulted in improved social monitoring and targeted interventions by the authorities and welfare organizations. Welfare Watch also helped to spread the message to the public authorities and society at large that nobody should be left behind as a consequence of the banking collapse.

70. Iceland should also be credited for initiating a comprehensive analysis of the causes of the banking collapse by the Special Investigation Commission, which was established by the Parliament. In addition, serious efforts were made to combat impunity for economic crimes in the financial sector through the establishment of the Office of the Special Prosecutor.

B. Can the Icelandic experience be useful in other contexts?

71. The Independent Expert intends to discuss more thoroughly in a future report how States can respond in a human rights-compliant manner to debt and financial crises. He would, however, like to make some remarks in the present report on how the lessons learned in Iceland could be fruitful for other countries.

72. First of all, certain particularities should be considered. Before the banking crisis, Iceland enjoyed, in comparison with other countries, particularly high levels of realization of social and economic rights. The country ranked very high on the Human Development Index, had one of the lowest infant mortality rates in the world, enjoyed unemployment levels below 2 per cent and had a high degree of gender equality, despite persistent pay gaps.

73. The government of a highly developed country similar to Iceland, may find it easier to respond in a human rights-compliant manner to an economic shock when it can still depend on significant revenues, a modern infrastructure and well-equipped, mostly functioning, public institutions with well-trained officials.

74. Iceland was able to rely on its social welfare system, which proved largely capable of absorbing the shock of the economic crash. Before the crisis, a social security benefit of last resort was already in place to guarantee some basic protection to all. Iceland also had a guaranteed minimum old-age pension and other social benefits that could be adjusted to respond to the crisis. The Icelandic experience underlines the critical role that a comprehensive social security net can play in protecting economic, social and cultural rights in the event of an economic downturn.

75. The economic crisis was largely rooted in one sector, which helped the response. Furthermore, Iceland had a track record of responsible public debt management and was therefore able to take on new debt to recapitalize its Central Bank, downsize its financial institutions and expand its social spending in response to the crisis. Instead of Iceland engaging in a policy of internal devaluation, the sharp fall of the krona helped the country to come out of the economic crisis through export-driven demand and a tourist boom.

76. With a population of 320,000, the country is small, with strong interconnections. It has an active civil society, well-rooted democratic traditions, a high degree of trade union organization, a long tradition of collective bargaining and conflict resolution through dialogue and compromise, and a public administration that is overwhelmingly willing and competent to respond to its citizens' needs. In response to public discontent after the banking crisis, the Government resigned, which opened the way for early elections, and referenda were held to allow citizens to express their views on certain decisions. There was increased dialogue with and among citizens. While some reform projects have not been completed or have been abandoned, the banking collapse changed the political culture of the country.

77. The way in which Iceland dealt with its banking collapse underscores the importance of the indivisibility of civil, political, economic, social and cultural rights to ensure human rights-compliant responses to a financial crisis. Despite the particularities outlined above, the Independent Expert believes that bigger and less developed countries, with more complex problems, can learn from the policy responses of the Government of Iceland and cherish the value of having a social security net in place to ensure a basic protection floor for all. Of course, those countries must adopt and adjust solutions to meet their particular needs and circumstances.

78. International financial institutions can also learn from the successful implementation of the adjustment programme in Iceland, which included capital controls, sheltering the social welfare system from cuts and a strong focus on revenue generation and redistribution through taxation policies. In the Independent Expert's view, the efforts of the IMF to

consult extensively with public institutions and interest groups, including extra-Parliamentary groups, improved the design and public acceptance of programmes. However, he noted with regret that economic, social and cultural rights failed to feature more explicitly in the agreed adjustment programme.[41]

VI. Conclusions and recommendations

79. **Iceland managed the financial crisis better than many other countries and must continue its efforts to ensure that nobody is left behind. Household debt relief measures successfully protected the majority of homeowners — but not all — from poverty and social exclusion. However, a society that is rightly proud of its comprehensive social welfare system and considers children and family as its core priorities, should not tolerate that the risk of children growing up in poverty is at 12.2 per cent, which is higher than the rate of poverty for adults (8.5 per cent).**

80. **The largely human rights-compliant response to the financial crisis was not only an outcome of conscious policy decisions, but was also a reflection of the responsible behaviour of social partners, a vibrant civil society, committed and competent civil servants and individuals engaged in their communities and working towards the common good.**

81. **The Independent Expert believes that international organizations and countries facing similar situations can learn from the particular path chosen by Iceland, which included protecting its core social welfare system, efforts to ensure citizens' participation in the decision-making process and endeavours to establish political, administrative and judicial accountability. He recommends that the good practices identified in this report be closely considered.**

82. **Financial systems require appropriate regulations and institutions aimed at ensuring that they serve the real economy. Yet, it is also necessary to reflect on the moral driving forces of the colossal over-borrowing that led an entire country into a financial crash. To what extent and under what circumstances are debt-based growth strategies necessary and consistent with the full realization of human rights and happiness? The Icelandic case shows that those questions are at the core of the role currently played by financial markets in modern societies.**

83. **In conclusion, the Independent Expert would like to recommend that the authorities of Iceland:**

(a) Address unemployment through a comprehensive employment policy, with special focus on groups at risk of long-term unemployment, such as young people and immigrants;

(b) Provide further targeted debt relief for poor and highly indebted households;

(c) Ensure that everyone has access, on an equal and fair footing, to social security benefits of last resort which provide a minimum essential level of benefits that are monitored and adjusted regularly according to the cost of living;

(d) Continue its efforts to combat poverty and social exclusion, in particular of young families with children, single-parent families, persons with disabilities, immigrants and individuals who are dependent on the rental market;

[41] See also Hjalti Omar Agústsson and Rachael Lorna Johnstone, "Practising what they preach: Did the IMF and Iceland exercise good governance in their relations 2008-2011?", *Nordicum-Mediterraneum*, vol. 8, No. 1 (2013).

(e) Improve access to affordable housing for people who are dependent on the rental market, improve rental market regulations and strengthen the legal protection of tenants;

(f) Address gender imbalances caused by the economic crisis identified by the Working Group on the issue of discrimination against women in law and practice;[47]

(g) Increase public spending on health care and education to pre-crisis levels, given the improved economic situation, and ensure that required health-care services, including dental care, are fully accessible by all;

(h) Intensify its efforts to address the high dropout rate in upper secondary education, in particular among children with an immigrant background;

(i) Strengthen financial literacy and education on social and economic rights in school curricula;

(j) Improve the provision of public information, including in foreign languages, on how individuals can use existing human rights protection mechanisms at the national or international level, including information about Icelandic institutions and associations defending the rights of citizens in the social and economic sphere;

(k) Further improve the institutional design and regulatory framework of oversight of the banking industry so as to manage potentially destabilizing capital flows and strengthen parliamentary oversight of them;

(l) Implement the outstanding legal reforms identified by the Parliamentary Committee that was established to consider the recommendations of the Special Investigative Commission; enhance laws relating to the accountability of government officials, thereby strengthening judicial independence; and impose employment restrictions in the private sector for former senior government officials, in line with the recommendations of the Council of Europe;

(m) Maintain the provision of adequate resources to the Office of the Special Prosecutor so as to ensure that it can execute its mandate in a timely and rule-of-law-based manner, including conducting investigations into past, current and future criminal economic activities and tax evasion;

(n) Ensure that the Debtors' Ombudsman remains adequately equipped to continue to assist over-indebted households with debt mitigation, provide advice and improve financial literacy so as to prevent citizens from falling into a debt trap;

(o) Establish, without further delay, a national human rights institution in compliance with the Paris Principles, with a broad mandate covering all human rights, including social, economic and cultural rights;

(p) Ratify the Convention on the Rights of Persons with Disabilities, the Convention for the Protection of All Persons from Enforced Disappearance and the Optional Protocols to the Convention on the Rights of the Child and to the International Covenant on Economic, Social and Cultural Rights in order to ensure that individuals are entitled to send complaints under those human rights instruments. The Icelandic response to the banking collapse showed that the Government takes its commitments to protect social and economic rights seriously; consequently, it seems appropriate that Iceland should ensure that its population has access to those international complaints mechanisms.

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[47] A/HRC/26/39/Add.1.